MTAR®

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CIN No : L72200TG1999PLC032836

To,

Date: 10-Nov-2022

The Manager, **BSE Limited.** **P. J. Towers, Dalal Street,** **Mumbai-400001.** **(BSE Scrip Code: 543270)**	**The Manager,** **NSE Limited,** **Exchange Plaza, Bandra Kurla Complex,** **Bandra (E), Mumbai- 400051.** **(NSE Symbol: MTARTECH)**

Dear Sir/Madam,

Subject: Disclosure under SEBI (Listing and Disclosure Requirements Regulations, 2015) -Transcript of Earnings call held on 03rd November 2022.

Unit: MTAR Technologies Limited

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Please find enclosed the transcript of the earnings conference call conducted on November 03, 2022.

The transcript of the earnings call is also available on website of the company i.e. www.mtar.in. You are requested to kindly take the aforesaid on your record.

This is for your information and records.

Thanking you,

For MTAR Technologies Limited

Shubham Sunil Bagadia

Digitally signed by Shubham Sunil Bagadia
Date: 2022.11.10 14:32:07 +05'30'

Shubham Sunil Bagadia
Company Secretary and Compliance Officer

"MTAR Technologies Limited
Q2 FY2023 Earnings Conference Call"

November 03, 2022

ANALYST: **MR. IRFAN RAEEN - ORIENT CAPITAL**

MANAGEMENT: **MR. SRINIVAS REDDY – MANAGING DIRECTOR AND PROMOTER - MTAR TECHNOLOGIES LIMITED**
MR. GUNNESWARA RAO – CHIEF FINANCIAL OFFICER - MTAR TECHNOLOGIES LIMITED
MS. SRILEKHA JASTHI – MANAGER, STRATEGY AND OPERATIONS - MTAR TECHNOLOGIES LIMITED

Moderator: Good morning, Ladies and gentlemen and welcome to the Q2 & H1 FY2023 Financial Results Discussion Conference Call of MTAR Technologies Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Irfan Raeen from Orient Capital. Thank you, and over to you, sir.

Irfan Raeen: Thank you, Mitchell. Good morning, everyone. Myself, Irfan Raeen from Orient Capital. We are an investor relation advisor to the company. I hope that all of you and your families are safe and healthy. On behalf of MTAR Technologies Limited, I extend a very warm welcome to all participants on Q2 & H1 FY2023 Financial results discussion call. Today on the call we have Mr. Srinivas Reddy, sir, Managing Director and Promoter; Mr. Gunneswara Rao, sir, CFO and Ms. Srilekha Jasthi, Manager Strategy and Operations. I hope everyone had an opportunity to go through our investor deck and press release that we have uploaded yesterday on exchanges and on the company's website.

I would like to give a short disclaimer before we start this call. This call may contain some of the forward-looking statements which are completely based up on our beliefs, opinion and expectation as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties. With this, I hand over the call to Srinivas sir. Over to you, sir. Thank you.

Srinivas Reddy: Thank you, Irfan, hello and good morning everyone. Thank you for taking the time to join us today. Today on the call, I am joined by Mr. Gunneswara Rao our Chief Financial Officer and Ms. Srilekha Jasthi, our Senior Manager Strategy and Operations and Orient Capital, our Investor Relations partners. We have uploaded yesterday our updated press release and results highlights on the stock exchanges and company website. I hope everybody had an opportunity to go through the same.

I am pleased to inform you all that H1 FY2023 has been a record half year in the history of MTAR with highest ever revenue and PAT.

The company has clocked a revenue of Rs.126.2 Crores with an EBITDA of Rs.34.9 Crores and a PAT of 24.7 Crores. Further, I would like to give a brief overview on sectorial performance and outlook.

The company continues to witness a significant growth in clean energy segment. We have also introduced a lot of new products in this segment, which is enabling the company to grow even at much higher levels. We have generated close to about 99 Crores from clean energy, which includes fuel cells, hydel and other related sales that we have done in this segment, and also we have delivered very high number of Yuma units about 1034 this quarter and also about 40 units of electrolyzers as well.

Further, we are also working under the clean energy in hydel sectors and also in wind and waste energy projects. We also received orders from new customers in this segment and we are building the first articles for them and hopefully we get much higher volumes moving forward in the next financial year.

As I mentioned earlier, we have received substantial orders this quarter which his close to about Rs.650 Crores plus which includes orders from nuclear segment, space, clean energy all put together. The company continues to strengthen the clean energy vertical to power a safe future and is currently in discussion with lot of new customers that are in hydel, fuel cells and hydrogen storage systems.

Our closing order book as I mentioned as of 30th September has been to a tune of Rs. 1,288 Crores with an order inflow of Rs.643.5 Crores and where exceptional increase to receive the kind of orders that we are looking at from various segments, especially in the clean energy segment because of our latest innovations that we have done recently.

We are on track to achieve our given annual guidance of 55% to 60% growth in revenues with an EBITDA of 30% plus, minus 100 basis points and as I mentioned earlier, the second half is going to be much stronger than the first half. So the EBITDA levels we would be able to catch up on that, and achieve the guidance what we have given in the past.

The company as I mentioned is consistently placing the efforts to diversify its customer base and as informed we have added customer to the GE, hydro, also the clean energy segments this quarter. We are also in discussion with several customers from not only in clean energy, but other verticals as well.

Our CFO, Mr. Gunneswara shall be discussing the financial performance for Q2 FY2023 and I would like now to hand over to him to take this forward.

Gunneswara Rao: Warm welcome to our earnings call. I will take you through the financial and operational highlights post which we will open the floor for questions and answers.

It is very satisfactory quarter for both in terms of Y-o-Y and Q-o-Q and also our highest order book ever in the history of MTAR.

Regarding the financials:

Revenue from operations stood at Rs.126 Crores in quarter two FY2023 as against Rs.91.3 Crores in Q2 FY2022 which translates a 38% increase in year-on-year. **EBITDA** reported at Rs.34.9 Crores in Q2 FY2023 as compared to Rs.29.4 Crores in Q2 FY2022 which is a 19% increase on year-on-year basis.

Profit before tax stands at Rs.33 Crores in Q2 FY2023 as against Rs.27.1 Crores in Q2 FY2022. This is 22% increase on year-on-year basis.

Profit after tax was Rs.24.7 Crores in Q2 FY2023 as against Rs.19.1 Crores in Q2 FY2022, which is 30% increase on year-on-year basis.

Our diluted EPS stands at 8.03 for Q2 FY2023 as against 6.2 for Q2 FY2022.

Our net working capital days as on 30th September is 263 days which includes 93 days are due to work in progress. We have some long lead time projects are there, which require to maintain inventory, so the work in progress is inherent in nature in our business, so we need to have this working capital, this is meant for future sales. We are also working on reducing the net working capital days. So our target is 200 days by end of this financial year, and our ramp up in revenue since expected to reduce our fixed cost and thereby improving our margins as envisaged by us. As informed by our MD, we are looking forward to increase our absolute profit and maintain EBITDA level around 30% plus or minus 100 bps. We are also strengthening our team and systems further to gather the highest growth we are witnessing from now onwards. With this I open the floor for discussions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Krishnan from Macquarie. Please go ahead.

Deepak Krishnan: Thank you for the opportunity. Just one question from my end. Wanted to understand the gross margin variation that we saw this quarter versus previous quarters and similarly on your other expenses they seem to be flat Q-On-Q despite the substantial increase in revenue. So just wanted to kind of run through any special one off or any factors that have impacted gross margins and as well as aided other expenses.

Gunneswara Rao: The highest export turnover whatever we have witnessed during this quarter has resulted the lower gross margin and also some of the domestic projects where we have the gross margin is different from project-to-project and this resulted in the lower gross margin higher the material cost. So on an overall basis by end of the year we will maintain the gross margin whatever we were on the average basis we will maintain on the year end basis. So the second question can you come again.

Deepak Krishnan: I just wanted to understand the sharp improvement we have seen in the lower other expenses this quarter that has really aided our EBITDA margins. Anything that is more sustainable do we kind of see this trend continuing.

Gunneswara Rao: As we know the growth what we have envisage is 55% to 60% in terms of revenue growth we are actually augmenting our manpower requirements for the future requirement that has resulted on the operating expenditure. So there is no issue by end of the year we will maintain our margins as we talked earlier, the higher revenue the fixed cost percentage in terms of the revenue will be lower by end of this financial year.

Deepak Krishnan: Maybe just on the order inflow like we see good order inflow in the clean energy sector obviously you declared the Bloom order but other than that we also see additional Rs.90 Crores order so could you like to show a kind of highlight are these from new customers or are the from existing Bloom orders itself.

Srinivas Reddy: We have received orders from clean energy in the case of Bloom energy to the maximum extent, we have also received orders from nuclear segment and also we have received the initial orders from GE renewable who is our new customer right now in the clean energy segment. It is a combination of all this and orders coming in from space as well. So majority of the orders are coming from fuel cell and we expect lot more orders coming in in the fuel cell segment in this quarter and Q3 and Q4 as well because we are introducing new products in the clean energy segment, which we have got qualified recently so we are expecting lot more orders flowing in during the next two quarters as well.

Deepak Krishnan: Sure sir, that is encouraging to hear, I will just get back on the question queue. Thanks for answering my questions.

Moderator: Thank you. We have the next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Good morning. Firstly, very congratulations on the robust growth that we have delivered in the current quarter. First question is pertaining on to your guidance this 55% to 60% guidance that you have given and the presentation mentioned that you are expecting Rs.300 Crores of revenues in second half. So would you want to revise it to the upper end of this guidance or probably exceed this 60% growth in the current year that you can do in the revenue.

Srinivas Reddy: Basically we have given this guidance in the beginning of the year. We always like to under promise and over deliver. So we have been looking at that all the time. Obviously the way the numbers are moving up and having a very strong second half of the year, obviously the revenue would be much higher, but I would still like to stick to this guidance but definitely we would be doing much better than what we have guided everyone on this subject.

Sandeep Tulsiyan: So just being conservative on that. Secondly on the order inflows also we had guided around 850 odd Crores order inflow because that is what translates in to your Rs. 1,000 Crores of closing order book for the year end, but we have achieved that number in the first half itself. So where would you want to take this order inflow guidance for the year because I am sure there will be second tranche of Bloom Energy orders coming in fourth quarter and also nuclear energy, correct me if I am wrong, but there is one more order which was pending where we were L1 to be booked has that already come in, in this quarter or there is some portion just being left. So what kind of an order inflows can we expect for balance part of the years and if you can highlight some major orders that you are looking forward.

Srinivas Reddy: As of now see the nuclear energy order has already come in, it is there in the order book. We have received that in Q2 that is about 62 Crores and odd. As far as the further orders are concerned, yes, we are expecting lot more orders coming in, but we will not be able to quantify it right now, but since we have got qualified for new products in clean energy and also with the other customers we are expecting orders flowing in even during this third quarter and the fourth quarter of this financial year. So we will have a very strong order book as I said closing orders book being Rs. 1,000 Crores probably we might exceed that, but I would like to stick to that but let us see how it goes.

But the way things are going and the kind of innovations we are doing, we expect a lot more orders flowing in at this point of time so let us see how it goes moving forward.

Sandeep Tulsiyan: Third question is pertaining to your nuclear segment; we are seeing very weak execution in first half just Rs.8.5 Crores of revenue our order book continues to be very strong because Rs.160 Crores at the year beginning now it is more than almost close to Rs.220 Crores. So where is the main bottleneck, why is the execution slow is it the delivery timelines as such how should we look at the annual growth numbers in this segment per se.

Srinivas Reddy: As I said the nuclear orders a lot of work is being done and we have this project of fueling machines and all this work in progress going on right now. So some of these projects will get executed during second half of the year both in terms of coolant channel and FMH and all these new projects that we are working on for the last one year and plus. So we will be able to catch up on those numbers in the second half of the year. So the cycle time for these projects would take that much time and there are certain clearance to be given by the department so it is happening the way it is but second half we will be able to catch up and improve the numbers.

Sandeep Tulsiyan: Next question is regarding your volumes for hot boxes. You had guided this year you should do somewhere around 4000 boxes, next year about 7000. If you can guide is there any change to these numbers that you are expecting and also Bloom Energy recently commission a 2 gigawatt electrolyzer plant in US. So, if you can give us some guidance, you said you did 40 units in this quarter what can be the annual volume run rate this year and next year in electrolyzers as well.

Srinivas Reddy: See electrolyzers we are considering to do a batch production right now and the next year the initial orders which they said of at least about 200 numbers and probably that number would go up as and when the time passes by over the next two quarters, but we are right on track in terms of this 4000 and 7000 units all that is right on track in terms of our execution level, which you must has seen in this quarter as well and even in the next quarter the numbers are much higher so we are right on track in terms of executing these orders and the numbers what we have mentioned earlier.

Sandeep Tulsiyan: Anything on the hydrogen boxes in terms of volumes that we can expect next year.

Srinivas Reddy: Yes, ultimately the electrolyzers and the hydrogen that particular products would really do extremely well, they will ramp up very high, in fact probably we are looking at little bit more time but probably by next year the ramping up should happen in a big way. Probably by end of FY2024 we will see a very good ramp up happening in those where it will be even bigger than the Yuma and Keeylocko verticals as well as units.

Sandeep Tulsiyan: One last book keeping question from my side. The other income has been coming in quite high, it is Rs.4 Crores last quarter, Rs.5.5 Crores this quarter. If you can just or Mr. Gunneswara Rao can just share the breakup of the other income.

Gunneswara Rao: See the other income is mainly related to scrap and other than the operating related expenditure. Forex gains which we received because of the higher dollar rate where our receivables are very high so that is why major of the Forex gain has come.

Sandeep Tulsiyan: How much was that in second quarter and in first half if you can share these numbers please.

Gunneswara Rao: So these numbers is Rs.2.9 Crores in the first quarter second quarter around Rs.4.4 Crores.

Sandeep Tulsiyan: That is from my side. Thank you so much for taking my questions.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Jitin Arora: Thanks for taking my question. Sir the first question is on your new client which you talked about GE Renewable can you throw some light how big this can become what are they ramping up and eventually it is the Yuma boxes only which you are supplying. If you can throw some light on this new client addition.

Srinivas Reddy: See GE Renewable is basically on the hydel sector. So they given us the initial order where the new customer for us for our Adibatla plant for about Rs.5 Crores that is a starting point, but based on our commissioning of the machining facilities in Adibatla by end of this calendar year, obviously this is going to grow bigger and bigger. It is not only GE Renewable we are working with Voith as well, Andtriz as well. So a lot of these companies are approaching us to execute the projects, so we are hoping that this would become much larger Volume moving forward over the next one year, two years.

Nitin Arora: That was the previous, well I thought something would have added in the clean energy part.

Srinivas Reddy: Yes, that is right.

Nitin Arora: In terms of scalability with respect to the new client in the same SOFC I understand Bloom is the only company which is doing that, rest of the other people are in a different technology and you said that if you have made this product you can eventually do other products as well which is made by Ballard and other one. So any update on that in terms of new client addition.

Srinivas Reddy: Yes, we are actually working on that, see one thing you have to understand is that lot of these companies which really analyze this they have to come to the volume levels of Bloom for us to really address that. Plug power has just started coming to India and setting up office within India that is what heard that all these companies ultimately need to start looking at outsourcing their requirements. We are looking at it, we are talking to various customers as of now, but end of the day the volume should be good enough for us to address that in any technology we need to work on it, but we have a great platform to address all this. But one significant thing is we are now going to work on the fuel storage systems like Fluence Energy from US they approached us and we are in advanced discussions with them that is going to be very big boost to the numbers moving forward over the next one year or so. So we are adding on customers which they not only make strength to MTAR in the long run in terms of revenue growth, but also in terms of our profitability so that is what we are looking at. So lot of good customers are approaching us and it is a matter of time over the next one, two years we have lot more customer base in fuel cells and fuel storage systems as well.

Nitin Arora: Just one clarification on the gross margin. So, quarter-on-quarter revenue which actually led no other change in any other segment it is just the clean energy which is export has increased. So that itself leading to a gross margin decline of 600 basis points, there is a commodity impact as well here if you can clarify that.

Gunneswara Rao: Regarding the gross margin 600 basis it is not purely on the export, there is export definitely the raw material cost is higher, the fixed cost is low but there are other projects where we have a raw material versus value addition, differences are there. Some cases maybe 50%, some cases 40% raw material some cases maybe 50%-55% it depends on the lot of products, but on an average our gross margin is around 50% by the end of the year we will get them around 50% to 52%.

Jitin Arora: Thank you very much sir, I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Sir my first question is in terms of inventory, what is the average inventory which respect to prediction schedule raw material inventory your stocking in which expected prediction schedule on month basis.

Gunneswara Rao: In terms of the clean energy we normally maintain a one quarter inventory or maximum four months inventory, because of the supply chain disruptions in the imported material we order in advance so that there would not be any disruption in the production or the cost of borrowing as on today is around 5.2% per annum so getting the raw material in time, on time is very important because loss of production will impact very badly in the company so the four months or three months inventory in the clean energy sector we maintain. In case of other areas where we already mentioned our WIP it is meant for a future production almost 93 days of working capital is related to WIP only. So other areas we have to get the material in order in case of the sheet metal enclosures and other areas and some of the raw material we also get an advance almost 41 Crores of money we received in advance from the customers for the raw material whatever we have in the company so thereby we do not want production disruptions that is why we maintained enough inventory for the next six months so there would not be any problem for company to achieve its target.

Deepesh Agarwal: Sir, is this understanding correct typically you keep 3 to 4 months of inventory right now you added six months of inventory for clean energy.

Gunneswara Rao: Normally our target is we wanted to maintain three months inventory for the next quarter deliverables in the case of clean energy but due to long lead times due to supply chain issues we are maintaining the inventory more than three months but over a period of time our objective is to keep the three months inventory in case of clean energy. In case of domestic projects, because we get an advance from customer as and when the project starts once our design is complete, we will buy the raw material and get the advance from the customer. We do not have any problem as far as the material is concerned because we receive in advance also from the customer.

Deepesh Agarwal: Sir your entire clean energy order book which is some Rs.870 odd Crores is executable in next one year.

Srinivas Reddy: Yes, it is basically what all orders we have received right now some of them are executed in the second half of this year and for the next calendar year that is what it is and we are also going to receive further orders to be executed in the next calendar year so that is how it is going to be, from time-to-time the execution time is very short for all these orders so that is what it is.

Deepesh Agarwal: So which implies next 12 months clean energy revenue could itself be more than this order book number.

Srinivas Reddy: Yes, that is right.

Deepesh Agarwal: Sir the other question is on the commodity prices settling down basically do you think that we can actually go beyond this 30% in terms of margins in FY2024.

Srinivas Reddy: No, I do not think so because whatever contracts we have signed for this year and as I said earlier it is a pass through for us any increase in the raw material cost does not really bother the company we are never affected by that till date, but we are saying the commodity prices settle down they are not yet in terms of specialized things Inconel, 17-4 PH, 440 see all these specialized materials are still on the higher side, but still it is a pass through for us so the customers cover for us so it is not an issue for us. But moving forward, probably we have to see if the stability comes in to place then it would be fine, but as I said basically the second half is going to be much stronger than the first half so whatever EBITDA levels we have given a forecast earlier that we will be with the catch up, up on and maintain that by the end of the year.

Deepesh Agarwal: It is heartening to see some dispatches for sheet metal or some inflows for actuators. Can you help us explain what could be the timelines with respect to the larger order on sheet metals, actuators or the screws?

Srinivas Reddy: See already the sheet metal plant is doing really well in terms of shipments happening to the tune of 12 Crores and odd I guess 11.7-12 Crores. We have orders for enclosures for about I think 700 sets were to supply in this year which we will be doing that that is about $3 million then we have another order which we have received for inflows for 2450 sets so purely based on our qualification and quality the customer has released order even for the next financial year, next calendar year in fact. So all these things are adding up in to moving MTAR into a more like to fully integrated system level since as I mentioned earlier the electronic side also we have started working on it we have now completing the stage one of electronics in terms of cable harnesses that is stage one which Bloom we are going to get qualified for cable harness for the Bloom and also for certain aerospace and defence projects as well moving forward. So all these things we are moving in a direction where making entire fully integrated company over the next one, two years. So lot of wallet share is being added within the existing customer base and also with new customers so that is where we are going ahead.

Deepesh Agarwal: Understood thank you sir and all the best.

Moderator: Thank you. We have the next question from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Good morning sir. I just have two questions. First if you can help us give an update on how have been the new product development proceedings and by when do we see the commercialization of some of these new products in our order backlog in terms of firm orders and second with respect to new client additions on the clean energy are we looking at other technology partners on temp side and if yes if you can just share any updates if any that we have here. Thank you.

Srinivas Reddy: Basically the new product development the first thing is the ASP the fueling systems in the clean energy segment we are qualified for that, that is going to reflect in next calendar year basically that is from January to December we are looking at close to about 100 Crores plus of revenues coming in from there so this is purely based on the qualification that we have done this is a great addition that we will be doing in terms of revenue in the product portfolio, roller screws we have already submitted the first articles and right now it is under clearance with the DRDO hoping that they would give the clearance to us at the earliest also they can put an import ban on that right now their importing it from Rollivs, Sweden both in space and defence and all these sectors so that is a market which we are looking at I am not going to say that we are going to get 70 to 80 Crores overnight, but over the next two years or so being capture that kind of market in this area electromechanical actuators we are executing the couple of two orders that have given us which we will be able to complete this year where even the roller screws go into that which we are going to use our own roller screws for that so the ENAs are something which we are doing pretty well so that will be another good addition to our product portfolio as well and we are further working on other products as well which will debate to the due time in terms of manifolds and other things which we are working on so we are working on lot of these products through our R&D department. As far as the new customers are concerned I spoke about GE Renewable customer we are being very selective we are working with good customers where it can translate into reasonable and good volumes moving forward so GE Renewable is one such customer we are also working with the customer called Fluence Energy from US for power storage systems which is completely very exciting project for us which is going to be very innovative which is going to give us volumes to the tune of at least about anywhere between 300 to 500 Crores one year from now or one and a half years from now so we are looking at such good customers working with them and obviously in fuel cell segment some of the companies are doing their prototypes they are coming to a level where they will start approaching us some discussion are happening so that probably will take another, we are looking at another three to six months time where we are look at some of the customers coming in line with in terms of their requirements so that is where we stand right now.

Renu Baid: Thanks so much and all the best sir.

Moderator: Thank you. We have the next question from the line of Pretesh Chedda from Lucky Investments Managers Pvt. Ltd. Please go ahead.

Pretesh Chedda: Sir our cash flow creation is very weak for the last five, six years that I am seeing and at the working capital cycle that we operate every time that we grow 50% we will need external capital either in the form of debt or equity. So what are we doing to ensure that when we grow the cash flow creation happens?

Gunneswara Rao: So the major reason for the revenue growth whatever we are witnessing which requires a higher raw material and work in progress. As we explained earlier our work in progress because in the domestic sector the projects are more than one year to two years so we need to carry the inventory value addition till such time it is delivered. Conservatively we are not recognizing the revenue on the percentage completion basis we go by the risk and rewards transfer basis conservatively we do not want to book higher revenue and then reduce the work in progress that is one of the reason for higher working capital. Now given the higher growth in the H2 when compared to H1 our target is 200 working capital days in by end of this financial year so that is one reason. Second is our receivable out of the total receivables 91% of the receivables are due but not overdue 9% are only overdue receivables are there that is also in terms of the contracts whatever we have some retention money has to be hold by the respective customer which we will get, already out of the receivables 20 Crores we received in the month of October so the working capital the inherent nature of business requires the working capital in case of the domestic customers we need to carry inventory till such time it is delivered to the customer and in case of export customers our credit period is 45 days after reaching USA so all these things we have factored in the pricing if you see our EBITDA margins are around 30% after the working capital funding so this business requires higher working capital and like you know we have all the borrowing limits in place and also the whatever you said. Yes so the inherent nature of the business requires a higher working capital and also we are factoring the cost of working capital in the pricing of the product whatever we sell, that is why we are achieving the EBITDA margin of 30% and the PAT of around 19% so this business requires the higher working capital because of the nature of the business whatever we are operating. However, we wanted to maintain our working capital days to around 200 days by end of this financial year. We are already done enough measures to improve the credit period and receiving advance from the customer wherever possible so all this will give the fruitful results by end of the year and I think 200 days we will maintain by end of the financial year and later stringent targets will be taken for next financial years also.

Pretesh Chedda: So what you mentioned on the revenue side we tend to book our revenues when we deliver a product is what you want to maintain.

Gunneswara Rao: We are actually recognizing revenue as and when we deliver the product to customers not recognizing revenue on percentage completion method even though the accounting standards allow us to do but we are not doing that, so the work in progress we need to maintain till such time we deliver the product to the customer.

Pretesh Chedda: So usually what is the execution cycle for your manufacturing.

Gunneswara Rao: So there is 12 months to two years some of the projects not all 100%products so maybe you can say 50%, 60% are the domestic customers projects it requires 12 months to two years.

Pretesh Chedda: And the max working capital cycle the lowest working capital cycle that you see is about 200 days as of now.

Gunneswara Rao: By end of the financial year that is our internal target we are taking enough steps to reduce the working capital by end of the year 200 days we wanted to maintain accordingly we are taking a lot of measures in terms of the improving the credit period of the supplier and get the advances from customer and reducing inventory level following up the receivables more vigorously so we wanted to achieve this by end of the financial year and in next year we will take further stringent target in terms of the working capital reduction.

Pretesh Chedda: And that execution cycle of one year which you mentioned more than one year and that even in the clean energy business that is the kind of execution cycle.

Gunneswara Rao: No, clean energy is not like that. This year we are going to do more than 4000 Yuma hot boxes and now more than 1000 boxes we have delivered in the Q2 of this financial year so clean energy is not like this.

Pretesh Chedda: What is the execution cycle for clean energy.

Gunneswara Rao: It is like this presently we are actually delivering more than 1000 fuel cells in the quarter in this one quarter.

Pretesh Chedda: Okay sir, thank you very much and all the best to you.

Moderator: Thank you. We have the next question from the line of Dhananjai Bagrodia from ASK Investment Managers. Please go ahead.

Dhananjai Bagrodia: What are the margin differential between the segments.

Gunneswara Rao: On an average we are getting equal margins in all the segment expect in case of the fuel cells there is 2% of margin differences are there that too we will mitigate with given the higher revenues whatever we foresee in the coming financial year and this H2 also the margins are more or less same except in case of a space maybe 2% higher.

Moderator: We will take the next participant and the question is from the line of Kishan Amarchand Tosniwal from Polar Ventures LLP. Please go ahead.

Kishan Tosniwal: Good morning, congratulations first of all on good set of numbers. My first question is basically did you participate in this Ahmadabad defence expo that happened just now.

Gunneswara Rao: No, we have not participated in this defence expo.

Kishan Tosniwal: Any reasons the company was not having anything related to it or just we are looking for something else.

Srinivas Reddy: We have participated the earlier exhibition but we are touch with all the various customers and we are also doing lot of projects, but we did find it to be probably to participate this year probably moving forward we might do that but we already have enough on our plate at this point of time and we are in touch with most of the customers in the defence sector as well.

Kishan Tosniwal: The second part is everybody is ask just to repeat up it. The working capital cycle that you are saying that you will be trying to get it to 200 days in this year by the end of the year if I can ask you what is our long-term target where we are satisfied that this working capital cycle if we achieve, if I may ask maybe two years, three years down the line.

Gunneswara Rao: See the working capital number of days we should not see as long as we are actually keeping that cost of working capital in my pricing we do not see any reason for the number per se that is not the only parameter we see. Ultimately today with the various government support and our interest cost is 5.4% per annum through interest equalization scheme we are opting so the cost of funding per annum 5.4% I am keeping this cost in my pricing and thereby we are achieving the EBITDA margin of 30% however we wanted to reduce our working capital as much as possible some incase of domestic projects for example we do not have when we say as far as the commercial terms of the contract into consideration because it is all is dictated by the tenders so even if one line or full stop if I want to change I cannot change, I will be out of the tender race. So domestic we do not have any say. In case of exports our credit terms are 45 days from the date it is reached to US location so it is nowadays because of this supply chain disruption it used to take 30 days or 25 days to reach USA now which is taking almost 60 days there is almost 35 days of the higher transit times the working capital days are increasing. I think we are hopeful that maybe next financial year I think all the supply chain disruptions will settle and normalcy will be there in the future then automatically the 35 days whatever transit time is now we are taking it will not be there in future so that will be one straightaway reduction will come. In case of other things like we are trying to improve like six months back we use to pay our suppliers low credit period because of the COVID reason lot of suppliers were asking for the upfront payment because of the cash flow crunch is across all the sectors during the COVID period now again we bring it to 60 days now some more suppliers we are working in this H2 also thereby enough steps we are getting to reduce to 200 maybe after that I think we do not have a plan as such because immediately we are targeting in this H2 of this financial year long run maybe 150 just because you have asked me now I will work for 150 days then see how best we can do but whatever said and done we have actually keeping this cost into the pricing achieving EBITDA of 30% PAT of 18% above that is main objective of our company is to achieve the profit numbers and revenue topline and bottomline is very important for us and this is also important but because of the nature of the business I need to keep higher work in progress and second is the domestic customers the tender is dictating the term in case of US customers the credit period is such that we need to have this working capital.

Kishan Tosniwal: Got it thank you very much.

Moderator: Thank you. We have connected the line of Mr. Dhananjai Bagrodia, he is on line. Mr. Bagrodia I will request you to kindly proceed with your question.

Dhananjai Bagrodia: Sir wanted to ask you with now lot of the larger players in India conglomerates in India which we are speaking about how they been focusing on hydrogen what is something which what would be our addressable market opportunity in such a big segment.

Srinivas Reddy: See the market space is very huge we are not going to look at the market the market is too big for us to look at it, the market is not the issue, the issue is with the technology right. So they are right up there in terms of technology and this has to improve over the next four, five years that is where we are. We have to start somewhere to end somewhere. So that is what it is happening right now. So market is not the issue, market is very huge for that right now and we need to focus more on the technology to make it more viable for everyone so that is what we are saying and that is the kind of stage we are in today.

Dhananjai Bagrodia: Just to get on little more, let us say would it be like a large conglomerate would place one order and then only 1% would get the whole value chain or how the value chain be broken up between companies like us and competitors I just want to understand where do we have enough opportunity even our technology we have to correlate to someone else technology also how does it work.

Srinivas Reddy: See I said the way it works is if you look at different countries every country every government has been subsidizing this whole green hydrogen projects in a big way because that is where the whole world needs to be in, the way we are having the climate changes happening all over the place so that is the priority. Now that being the case lot of companies are focusing on how to build a technology and how to make it very viable over the next five, six years that is what we are going to see. If you look at electric cars and all that ten years back, you would not be think about it right now we are all talking about it but moving forward seven years hence from now you are looking at green hydrogen being a prime source for energy for everyone. So for that to be achieved we are actually ahead of the game in terms of building with our customers in terms of this technology and once that happens then you can see as I said this particular vertical is going to be the biggest vertical moving forward even in case of MTAR so that is exactly where we are going to be moving forward as well.

Dhananjai Bagrodia: So would it be fair to assume that there is enough opportunity for every player and you would not be just be one players technology which gets picked by the conglomerates and then the other players loose out as such right.

Srinivas Reddy: There is nothing like that there is nothing like other players loose, it all depends on what kind of technology they have and as I said earlier also that the market is too big for us to really bother about it so there is enough to grab from the plate and whatever a huge space which is available for us right now.

Dhananjai Bagrodia: Lastly just one more question as most of our contracts are fixed or variables because of that gross margin movement.

Srinivas Reddy: What do you mean that fixed or variable I mean we have all the nuclear orders we have fixed side of pricing for that but we have a pricing clause for them 20% to cover variation and the other projects like space it is the raw material is the main issue for us so that is not an issue at all and the case of clean energy it is a pass through for any increase in raw material the customers take it up so that is about this.

Dhananjai Bagrodia: Okay fine sure thank you.

Moderator: Thank you. We have the next question from the line of Rajamohan V an individual investor. Please go ahead.

Rajamohan V: Thank you for the opportunity. Congratulations on the results and phenomenal order bagging. Question largely on clean energy, broadly Bloom if you looking at the 30% to 35% growth over the next ten years aided by growth in SOS as well as electrolyzers. Considering that various levels that MTAR has in terms of increased wallet share or increasing wallet share and constantly driving higher product efficiencies does not it arithmetically translate to us growing higher than this 35% CAGR for Bloom, does MTAR management have any internal assessments to share of the growth prospects of the Bloom business over the next ten years that will be 40%, 45%, 50%. Thanks.

Srinivas Reddy: No, do not look at ten years but what is most important is two aspects here how long we have been doing in the last one year, how are we doing in the next year or next three to five years from now. Yes, we have seen a phenomenal growth in terms of what we have been doing for the customers and secondly also the various increase in wallet share through innovation for that some of the products what they are importing from Japan or from US the banks in US we are able to get qualified for such products your R&D to supply present increase of wallet share so this also enables us to that is what it is happening right now we have a great platform to address any other customer moving forward as well as very encouraging that is what I said you need to be at that kind of volumes for MTAR to really address their need. So we are looking at customers to build their prototypes and probably we might address their requirements as well moving forward. Yes, the growth of Bloom has been very encouraging we have a clear forecast during the next three, five years the way things are going right now and that is why we are proactively ensuring that we have enough capacities, enough developmental activities that we are doing to ensure that we are right up there in terms of deliverables for Bloom as year-on-year basis.

Rajamohan V: Yes, understand, but Bloom generally supposed to be as you yourself have indicated and bloom themselves have much more efficient in their products 20%-30% more attrition sees in their products and competitors. So when Bloom itself says it will grow at 35% CAGR arithmetically I was looking at you growing forward with higher wallet share in this. Anyway that is something which we should take in our estimates. As we finish half year this year do we have visibility to guide on FY2024 revenues especially based on Bloom's budgets like we have orders worth Rs.868 Crores in clean energy which we have indicated to executing 80% in calendar 2023 and over that we would get new orders also and looking at number of hot boxes guidance we have stated to it increasing from 4000 to 7000 which itself is a 75% growth. So I see as doing a lot better than the robust

55% to 60% growth you have indicated to this year and I will get a number of around Rs.700 Crores of revenues from clean energy it will be possible next year is it a right guestimate.

Srinivas Reddy: Yes, see we do the calculations right so I do not want to say that obviously the way things are growing how strong the order book is the revenue growth is going to be very robust moving forward the second half as well as next financial year so we do not want to give a guidance way ahead of time right now for FY2024 that we are very excited the way we are growing right now and also innovating lot of things in different segments yes you are right but we would like to stick what we have said in the beginning of the year and as I said you under promise and over deliver but you technically to calculate everything what it is so I leave that up to you really.

Rajamohan V: And one final question on margin improvement with higher efficiency products higher wallet share economies of scale kicking in would we see discernable improvement from say next year resulting in structural early improvements in margins even beyond the 30% and we have indicated to the CFO indicated during the call the clean energy segment also heading towards the company margins of 30% though this 100, 200 basis points below that so when all that happens from next year do we see a structural possibility of improvement beyond the 30%.

Srinivas Reddy: See first the 30% EBITDA level it tells about it is a good margin levels so as a company would always try to work hard towards improving our margins better and better so that is something which we have to see yes you are right once the operating leverage is very good in the case of clean energy it makes sense that is our endeavor from our side to try to improve margins as much as possible wherever to reduce cost that is the constant endeavor to the company and obviously things would improve moving forward but let us see how it goes.

Rajamohan V: Thank you.

Moderator: Thank you. We have the next question from the line of Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.

Deepak Narnolia: The previous participant ask for a similar question actually I just wanted to estimate your revenues and the mix of the revenue so basically what I see that this year for this particular quarter your non clean energy business has done really mute it is very muted it as done somewhere around only Rs.3-4 Crores of revenue and you have outperformed in your clean energy business so what is the mixed guidance you had given in the initial year is it at risk like you had expected 40% to 45% growth in the non-clean energy business also. So as far as the revenue is concerned so growth number we are maintaining yet do you see that this job mix will probably change and you will outperform on your clean energy business because this quarter you have done 100 Crores of revenue in the second quarter and that is a significant ramp up from 70 Crores in the first quarter and you have a very robust order book in the clean business also so I wanted to understand that and sir how many boxes you have delivered in this quarter and how many boxes you would deliver in this year.

Srinivas Reddy: To answer your first question as said this earlier, the domestic revenues where we are working on some long cycle products whether it is nuclear or some space or you remember we are looking at chemical product that we are going to release by end of this year. All these projects are being executed by during the second half of the year. So whatever we have guided in terms of the benefit number we would stick to that it is not an issue so that is on track so normally in domestic products we have to look at not on quarter-to-quarter basis we need to look at on an annual basis so as I mentioned on an annual basis we will stick to that guidance with what we have given in terms of the domestic project what we are working on in space, defence, and our nuclear projects so that is not an issue at all. So that is why I said our second half is still be more robust in the first half.

Deepak Narnolia: So what is the kind of revenue sir if you can guide something what is the kind of revenue you do this non-clean business.

Srinivas Reddy: I cannot give you the exact breakup but whatever we have said earlier the way we have the monitoring system we are on track with that whatever numbers we have whatever we have given I do not have the exact figures right now but we are on track with those projects being execute in the second half of the year for sure. So that is not be an issue at all. Now as far as clean energy is concerned obviously we have done more than 1000 units of Yuma boxes this quarter itself and the coming quarter we are looking at about 1600 plus so we are right on track with the kind of numbers the way it growing the clean energy is galloping it is doing extremely well so there is nothing…

Deepak Narnolia: 1600 in one quarter.

Srinivas Reddy: Yes, that is what we are aiming for this quarter.

Deepak Narnolia: For the third quarter.

Srinivas Reddy: Yes, that is what it is. So that way this and so in fact we are adding other products as well which will come into play in Q4 in clean energy as I said there is some products which we are adding which will add that product itself would had about Rs.100, Rs.110 Crores in the next calendar year so we are adding lot of new products so what I am trying to say is clean energy is doing extremely well but the absolute numbers of our domestic which are in very niche area which we are working on those absolute numbers are also growing year-on-year basis. Do not look at percentage basis with respect to clean energy if you look at the absolute numbers it makes lot of sense. So it is not that the other segment are definitely on track and there is nothing to, we are really working towards even building them more and more the order book is also very robust for us in domestic business as well. So that will improve our absolute numbers keep growing higher on year-on-year basis.

Moderator: Thank you. We have the next question from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: Thanks for the opportunity. I just wanted to get the management's view on your defence segment and how you see this shaping up going forward in the next couple of years and was currently contribute by about 3% to the business but do you see this number growing or do you see it staying at a similar level.

Srinivas Reddy: As I said even in the past like I am not looking at the percentage number in domestic because of clean energy numbers are really growing very high so we should talk more on the absolute numbers in terms of how we are growing year-on-year basis in terms of absolute numbers. So yes moving forward as well we are working on number of projects right now so it will definitely improve year-on-year basis we have lot of projects that we are looking at we have the order book also in this particular segment but we do mostly we work on lot of R&D projects primarily for the DRDO in developing lot of systems for them and products for them so that is what we are doing so obviously some of the products that we are working with lot of and all of them will help so moving forward yes we will see improvement coming in this area as well.

Shirom Kapur: And just another question to understand your domestic versus exports. So as clean energy given so just to understand this most of the non-clean energy domestic focus business and clean energy mainly extra focus is that understanding correct.

Srinivas Reddy: Can you repeat that question.

Shirom Kapur: Just to understand your domestic versus export revenues so as majority of the non-clean energy business primarily serving in the domestic market or is there an export a large export opportunity in that as well.

Srinivas Reddy: No, it is primarily the domestic market because nuclear space basically it is on the domestic market as well but we are still exporting to companies like Rafael, Elbit and companies like that so we have export customers as well in the aerospace division and defence sector so we are doing that as well.

Shirom Kapur: Okay got it thanks.

Moderator: Thank you. We have the next question from the line of Amish Kanani from JM Financial Services. Please go ahead.

Amish Kanani: Sir you have mentioned about establishing the EMS full-fledged facility so if you can give us some sense of what is the plan what are the investments is possible and second question is on the Seneca engine side space side you have talked about delivering in Q4 one product if you can give us some sense thereof and you are talking about as a new product I understand there will be a long lead-time in terms of R&D but you can give us some sense of what should be the phase I of that how long will be the timeline in terms of developing that product thanks.

Srinivas Reddy: Basically the EMS as I said earlier we are moving into the electronic division to make at that affluent to made it something we are doing lot of equipments where we are doing a fully integrated system even today but we would like to really ensure that we have these divisions within MTAR to make sure that we not only lot of our existing customers are asking for it and we can increase our wallet share with them. So we have already started the first stage of cable harness business that will get implemented in the end of December and then we do it in three different stages so over the next one, one and a half years we would say that we would have implemented the entire stability of electronics into MTAR that is what we are looking at right now. As far as semi-cryo is concerned that is probably by end of Q4 we will be able to launch that engine with ISRO that is the target plan right now it is a new engine it is a developmental product which we are working on it with a much higher pay load even so it is working with us to ensure that it has done by end of this year so that is what we are planning to launch in the end of this year. SSLV is a project which it is very exciting for us. we have started working on the designs of it also the MOU from the space is expected to be signed sometime in the month of November so that is a three-year kind of a program in terms of design development for this project because as we all are aware the government has given enough support this going to give enough support in terms of developmental activity and also on the operational flights in terms of Avionics and the launch by us at cost is what they are going to give it to us. So this the project which will take MTAR to a completely different level in this space division so our entire focus is on this the best part is they have enough facilities to manufacture this within MTAR because we have already been working with the space division. So this is about a three year timeline is what we have right now it might extend to about six months is what we are looking at this point of time.

Amish Kanani: And any idea for the market opportunity addressable market opportunity in engine versus SSLV some value I know the numbers could be very initial and…

Srinivas Reddy: Yes, it is too premature but the numbers are going to be very large but the 80% of the world market is on the Small Satellite Launch Vehicles so that is what we are looking at. So that is the reason why we have taken up this project and it is something which our entire R&D and the entire team is working on this so this will be something which is we are going to see the fruits of this in the three, three and a half years from now but lot of work is going on, on this particular project at this point of time.

Amish Kanani: Sir and this will be a JV or some consortium is what I think we are thinking about right Sir or it will be independent.

Srinivas Reddy: No it is not a JV it is an independent project; we will have the right support from ISRO in terms of Avionics and other areas and that probably will support and the few testing facilities as well we have to see that but it is completely an independent product.

Amish Kanani: Sure sir, that is it I think and all the best. Thank you.

Moderator: Thank you. We have the next question from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir my question is do we undertake any development with DRDO since you have mentioned DRDO is one of your customers.

Srinivas Reddy: Yes, we have been doing that for the last 40, 45, 50 years we have undertaken lot of R&D work with them and we continue to do that.

Akshay Kothari: So we do get revenues of R&D from them as well because developmental revenues also we would be getting right.

Srinivas Reddy: We will be getting the revenues it has not done free of cost; it is developmental revenues we will be getting from them.

Akshay Kothari: And I think CFO sir mentioned about the we do have an option as per accounting standards to go as per the percentage of completion method so is there any specific reason why we are not opting for that method.

Gunneswara Rao Pusarla: You see, so the reason for it we wanted to conservatively we do not want to book the revenue. As and when we deliver the goods we are booking revenue. In case of new projects which we will see in the future because these are all the projects I think last one year it is continuing the dispatches we wanted to continue the same till such time it delivered to customer, but in case any future orders which is having a overtime concept is there that we will see in the future but without any like taking any benefit out of it we just want to go fairly and book the revenue that is the main reason for us to oft earlier in this.

Akshay Kothari: And Elbit systems and Rafael opportunities are offset opportunity or other than offset.

Srinivas Reddy: It is a combination of both I think MNCs that they are working on it is a combination of what they require there and what offset probably that they have here. But offset is technically out of the window more now right now because all about Make in India. So the government is pushing for all these companies to actually manufacture in India under joint venture so that is the future in what we are looking at.

Akshay Kothari: But they must have pending offset obligations which they need to fulfill in next five to seven years.

Srinivas Reddy: Yes, that will be done for sure but I am saying moving forward it is more of make in India than offsets. I am talking about the new projects.

Akshay Kothari: I am just asking that do we foresee for next five years also any we get offset opportunity from these customers as well because they have a huge offset obligation currently.

Srinivas Reddy: Yes, they have a lot of offset obligations yes there will be residual offset obligations coming over the next four, five years as well that will continue apart from that for all the new projects it is more of Make in India kind of a concept that they have to do a joint venture with any qualified Indian company to take the projects more.

Akshay Kothari: Thanks a lot.

Moderator: Thank you. We have a follow up question from the line of Deepak Krishnan from Macquarie. Please go ahead.

Deepak Krishnan: Thank you for the follow up opportunity. Just probably one question from my end. Wanted to understand how are we in terms of the raw material procurement especially from Europe is there any disruption that we kind of foresee that could impact us or we think we are very well covered irrespective of what is the current situation in the European geography.

Srinivas Reddy: We are totally covered that is why we have been maintaining our inventory levels at a higher level right now yes there are some delays but that is the reason why we have ensured that we maintain enough inventory level so that we do not face the lying down situation the way I look at it they are completely covered so I do not see any issues with them.

Deepak Krishnan: And any incremental Capex that we would require from a clean energy perspective as we cross the 7000, 8000 box levels how are we kind of looking at it from FY2024-FY2025 perspective.

Srinivas Reddy: See as of FY2024 we have capacity for 9000 units so we have signed with that but the way it is growing probably for FY2025 we need to proactively see how we can increase even beyond that but how the electrolyzers vertical really perform which is going to really ramp up much bigger and all the new products that we are launching for next calendar year so we have to evaluate all that and that is the reason will be taken by end of this calendar year.

Deepak Krishnan: And just maybe one clarification so largely the domestic projects right now saying that you do not book revenue and a lot of it is stuck in a inventory is it largely in the nuclear segment or do we see similar impact in the space segment as well.

Srinivas Reddy: It is mostly in the nuclear and also for some projects likes space like semi-cryo for example they are in advance stage of the winning but primarily it is in the nuclear business.

Deepak Krishnan: So but once we deliver the product there should not be any problem on the receivables anyway because that government bagged

Srinivas Reddy: Yes, absolutely we never had any issues with receivables with any of these organizations till date, so there is no that situation will come.

Deepak Krishnan: Sure sir those were my questions thank you for the opportunity and best of luck to you.

Moderator: Thank you. We have the next question from the line of Vinayak Mohta from Stallion Asset Management. Please go ahead.

Vinayak Mohta: My questions have been answered. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question that the management could answer. I would now like to hand the conference over to Mr. Srinivas Reddy for closing comments.

Srinivas Reddy: I would like to thank everyone for joining us today. It has been a very good quarter for us and even moving forward as I mentioned the second half is going to be very exciting for us and even for the next year as well and moving forward for the future years we are doing lot of work in terms of innovation and in terms of adding the various customers, increasing the wallet share within the customers and adding new capabilities we will try to work more towards these areas and obviously people talk about the working capital number of days but that is something which we are working on but it is more on external factors and an internal factor for the company in terms of the delays in time to times to US both transitions there still the things are remaining the same hopefully by end of this year it will come down and we will also bring down the inventory levels as much as possible till the supply chain settles down and as the CFO said we are targeting for 200 days and probably moving forward for next year we will have little more aggressive targets so we are on top of it. I want to tell this to all of you and there should not be any issue for the company even moving forward as well. Thank you so much for all your time and hopefully we will see you next year in the next earnings call end of Q3. Thank you.

Moderator: Thank you. In case of any further queries please contact Orient Capital. On behalf of MTAR Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.